

To Henry Northam

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OBSERVATIONS

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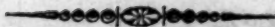
BANK OF ENGLAND,

AND ON

THE PAPER CIRCULATION

OF THE

COUNTRY.



BY SIR FRANCIS BARING, BART.

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1797.

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IN consequence of my late publication, I have had the opportunity of receiving opinions which are entitled to the highest respect; and I therefore hope that I shall be excused for making a few additional Observations. These Observations were intended to follow the Second Edition, as a Postscript; but as the Bank and the Minister came forward with their plans sooner than I expected, I withdrew the Postscript until I could understand the nature and extent of the measures proposed. They are now fully explained; and as they fail in my humble opinion, by not providing against two material points, which I conceive to be necessary for the preservation of the internal tranquillity of the country, and for the security of the public

against the misconduct of the Bank in certain cases; by not making Bank Notes a general legal tender, with regard to the first point; and by not limiting the amount or extent to which the Bank shall be suffered to issue their Notes, in regard to the second object; I shall forbear to offer these additional Observations in the usual mode of publication, but content myself with circulating them to those persons who I think may be disposed to consider the question in a private and deliberate manner; trusting that no disturbance or convulsion will happen to affect the paper circulation of the country; in which case any further regulation will be unnecessary. On the other hand, I shall rest satisfied in the discharge of what I conceive to be a duty I owe to the public, in explaining the true principle or basis on which the paper circulation rests, and the means by which it could have been secured against any temporary storm,

storm, or attack from within, or from without.

The material points which I have endeavoured to discuss in my former publication are :

Regulations with regard to Country Banks.

To make the Notes of the Bank of England a legal tender.

To render the Bank, as a Corporate Body, independent of Ministers.

And finally, To limit the amount, beyond which the Notes of the Bank shall not be suffered to circulate.

I have heard no objection against what I have mentioned with regard to Country Banks, except that the observations may be much extended; of which I was aware, as I know that every establishment must have some local circumstances attach to it; but it would be unjust to form a hasty decision in the capital, upon Banks in the country, without further information, and a more deliberate discussion.

A very small part of the circulation of Country Banks, consists of Notes payable on demand, and without interest: the danger arises from their Notes or running accounts on which interest is allowed. If the subject shall ever be seriously considered, with a view to legal restrictions, it is probable that Notes without interest may be suffered to continue as at present; not only because the comparative amount is small, but also for the convenience

venience of the country circulation, which must not be impeded, and which cannot be substituted by the small Notes of the Bank of England. When pecuniary operations amount to hundreds and thousands, Notes for pounds are proper, and answer the purpose of transferring debts from one person to another, in cases where gold would be inconvenient and troublesome; but, when it relates to the few guineas which are used in daily or hourly payments, and carried in every man's pocket, Bank Notes for pounds are inconvenient, whilst those of the Country Banks, for guineas, are totally the reverse; and thus the Notes of a Banker in an obscure village will always receive a decided preference in its neighbourhood.

But whilst I find every opinion concurs with mine, to preserve the independence of the Bank, and to limit the extent of their circulation,

circulation, so long as they receive that protection from the law, of which individuals are deprived ; yet many entertain doubts, and some are averse to making Bank Notes a general legal tender.

The gentlemen of the profession of the law are, with a very few exceptions, against making them a legal tender ; at which I am not surpris'd ; for the mind of every theorist must revolt at the idea. My opinion is founded upon personal knowledge and experience ; as it will be seen in page 73 that I have reprobated the principle, which nothing but absolute necessity can justify. The question, however, is not, Whether we shall do that which in itself is most desirable and right ? for something stronger than opinion has already decided the point : but, Whether the public are disposed, from motives of prudence and foresight, to take

the only effectual measures to prevent a return of those convulsions to circulation and commercial credit, which *may* possibly arise from the circumstances I have already described?

With regard to commercial opinions, or those who entertain doubts, but who are few in number, I will beg leave to observe, that our object is precisely the same. If my proposal to make Bank Notes a legal tender for a time, limiting the amount, is not a better security for the public against abuse and danger, than to suffer the Bank to remain with an exclusive protection, and a power to issue their Notes to an unlimited amount; either my arguments have been misunderstood, or they are of no avail.

The mischief is already done, and a partial remedy has been applied, but a physician
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will be deemed unskilful and negligent, who, in the progress of a cure, does not take effectual means to guard against a relapse. It is difficult in the extreme to combat opinions which the present generation has received with their milk from the breast; the more so, as those opinions are just and well founded. If we really possessed the power and capacity of acting upon those principles, all would be well: but we are unfortunately deprived of those means, and in the midst of events and circumstances which are unprecedented in history, and beyond the powers of the human mind to fathom, we ought not to hesitate about a word, or a name, but to seize the substance wherever it can be found, and not to hazard the security of the country, by grasping at a shadow. I therefore repeat that in my humble opinion, to make Bank Notes a legal tender, limiting their amount, is much more safe, and more likely
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to secure the tranquillity of the country, than to suffer the Bank to remain as at present, with an exclusive protection, and a power to issue those Notes to an unlimited amount.

It is said, that an association of the Merchants and Bankers in London has been found sufficient to stamp a currency and confidence in Bank Notes, for the purpose of giving them a general circulation : this is true with regard to the metropolis, more particularly as the measure was accompanied with large and liberal discounts from the Bank of England at the time. But we must inquire into the situation of the country establishments in the months of February and March, many of which were tottering on the brink of ruin, whilst the Bankers in London, in consequence of the association, were put completely at their ease. They will tell you, that the Bank of England Notes were refused on many

occasions by their customers ; and that, instead of accommodation, ease, or advantage, they have experienced great difficulty, and a considerable diminution in the amount of their deposits. In short, the metropolis enjoyed on that occasion, a preference or advantage over the country at large, which is precisely the reverse of what ought to have been the case.

Such an association, which was composed of men of the most respectable characters and upright intentions, did all that could be done on the occasion, and merited the thanks of the public ; but their resolution was founded on some knowledge of the amount, or nearly the amount, of Bank Notes in circulation : and an opinion that the Directors would maintain their independence. But, if the Directors should increase the amount of their Notes beyond a capacity in the public to receive

receive them at par, either for the private interest of the Bank, or under the influence of Ministers, whatever resolution the members of that association may make to receive them at par, the public at large will appreciate those Notes according to circumstances, and attach a rate of discount, in proportion to the excess beyond what is a reasonable and proper amount.

When the Country Banks were distressed in the year 1793, they were supplied with guineas to enable them to discharge their demands, which were received, and understood. In February and March 1797, they could offer no other substitute in discharge for their own Notes, but those of the Bank of England, which were often refused, and their solidity often questioned, in consequence of the exclusive protection which the Bank enjoyed; and those difficulties were increased

by the inconvenience arising from their Notes being made payable in pounds, and not in guineas. I know that such objections do not apply to Bankers in London, who have experienced ease and accommodation, instead of embarrassment : but they are serious evils with regard to the internal tranquillity of the country, and it must be remembered, that if the value of Bank Notes should fall below par, it is more likely to originate from the Grazier and Butcher refusing to receive paper for meat, or the Farmer and Baker for bread, than from any reluctance on the part of Bankers in London, whose rapid circulations will not afford them sufficient time to reflect, or to brood over the circumstances of a gloomy moment, whether well or ill-founded ; more particularly, as their interest and convenience will induce them to support to the last moment, the value of paper, in which a proportion of their deposits must always be invested.

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I therefore see no reason to alter the opinion I have entertained, and which has been strengthened by those who understand the subject much better than myself. But, as it has been determined, that Bank Notes shall *not* become a legal tender, I must express my regret that the Bank are *not* limited with regard to the amount of their Notes, so long as they enjoy any legal protection to screen them from payment. If the Bank shall reassume their payments, restrictions of any description would become totally unnecessary; but, under the present regulations, circumstances *may* arise to place the circulation of the country in a great degree of danger, and which it has been my endeavor to prevent and to secure,

I cannot conclude without acknowledging that some respectable persons have objected to the term of bankruptcy, which I have

used in the preceding publication ; and I freely confess that I should have been very forward to have apologised for my error, if I could satisfy myself that I had committed one on the occasion. My views were altogether prospective, and precautionary ; it was therefore incumbent on me to describe the past distinctly, and not to overstep the truth ; for, by whatever word, or in whatever manner, the event shall be described, I trust that I shall be believed when I assert, that I had no other motive in pointing out the danger we had escaped, but to call forth the attention of the public, to adopt measures for the purpose of preventing its return. Perhaps those who object, are not aware that the case is new, and without a precedent ; of course, that no word, conformable to its common use and acceptation, can be correctly applied ; for those who have suggested the words “ failure, suspension,”
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(which are the same) or "insolvency," should be apprised, that the Bank were *not* insolvent, nor could I be satisfied to describe an event which must stand conspicuous in the history of this country, as a "failure," when I have heard a lady use the same word, in attempting to thread her needle. A state of insolvency is correctly understood, and is irretrievable; that of bankruptcy is more indefinite, for there are many instances where they are not insolvent, and which are ascertained by the commission of bankruptcy being superceded. I apprehend the name attaches more to a legal form of proceeding, than to a correct definition of real capacity or incapacity of the party to fulfil his engagements: and the reason why insolvent persons are anxious to prefer a deed of trust to a commission of bankruptcy, is, for the purpose of avoiding the disgrace which would thereby be published to the world.

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In the present instance, concealment was impossible. The Bank was not insolvent, they had more than failed, and had passed beyond the line of bankruptcy ; for they had received from the legislature an exclusive protection, to the prejudice of their creditors, who were thereby left without an option ; and who, in every other instance, may use their own discretion, in consenting to a deed of trust, in taking out a commission of bankruptcy, or, in arresting the person of their unfortunate debtor. Under such circumstances therefore, I humbly presume the word will not be deemed too strong, to mark the very bitter pill which the public has been forced to swallow,

FINIS.

